

SENATOR DORGAN: Mr. Chairman, thank you very much.

First let me thank Senator Byrd, Senator Sarbanes and Senator Stevens, who joined us in introducing legislation in the U.S. Senate to create this Commission. These are very distinguished Senators, and I am proud to be at the same table with them.

I look at this panel and think, "What an interesting group of thinkers we have gathered together on this issue." You come from different areas of the country, different disciplines and different philosophies. This is, I think, a remarkable Commission and remarkable panel of experts.

I want to thank you for giving of your time. It's not easy to do that. I know all of you are busy, but I think this is very important. Your giving of your time and service to your country is deeply appreciated.

You know that, by all accounts, we live in quite a remarkable time in this country. Our economy is running like Secretariat in the backstretch at the Kentucky Derby.

It's almost like there's nothing missing. When our economy is performing as well as it is, however, you can still, from time to time, see some

storm clouds out in the distance. And that's kind of the way I see this issue.

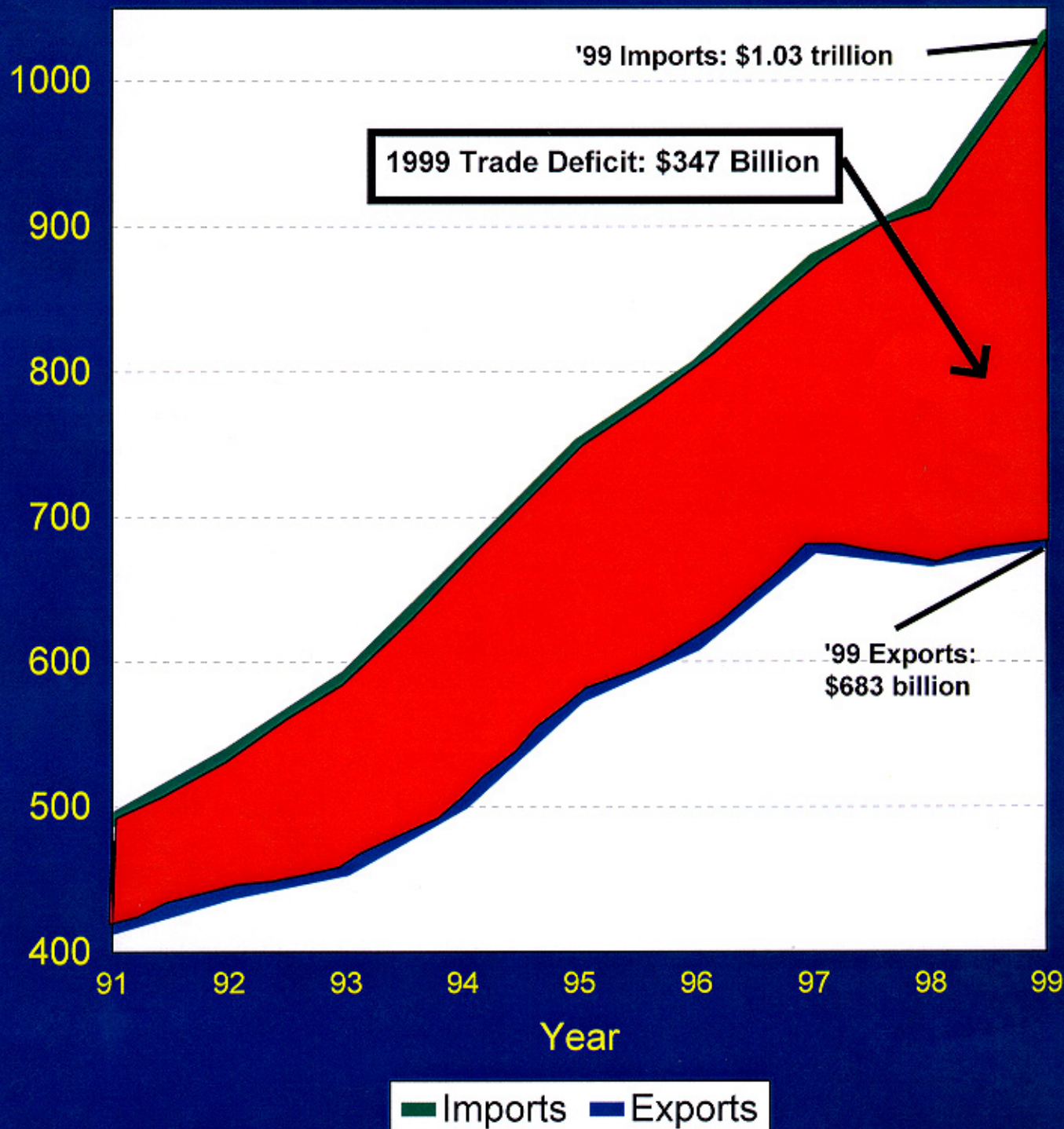
I purchased a car some years ago. And it turned out not to be a very good purchase. It was a new car, but then after several years, about the fourth time I had it towed by a tow truck, my wife began referring to my car as a lemon. And I rather resented that.

I knew it was a lemon, but I was the one that had purchased it. And, even the last time it was towed, I thought to myself: I know this is an awful car, and I did probably purchase a lemon, but I don't need anybody to tell me that.

That's kind of the way it is with trade, it seems to me, and trade policy in this country. Most of us would know by the numbers and the charts this isn't working very well. I want to go over a few charts just briefly. I know you have seen all of this data and you've seen all of the statistics, but I want to show you a few charts. (SEE INSERT 1)

# Goods Deficit Surges

Billions of Dollars

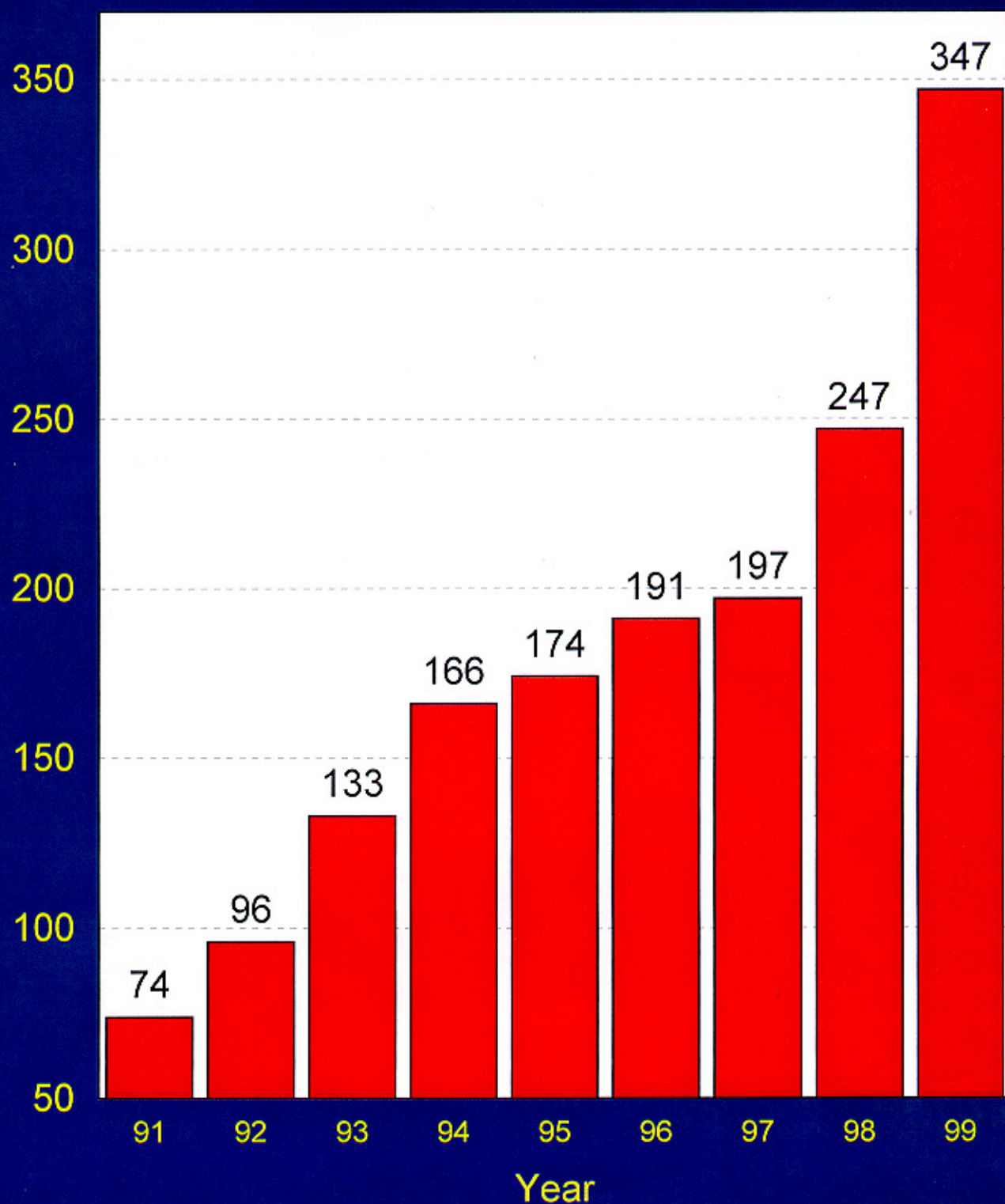


Source: U.S. Department of Commerce



# Goods Deficit Skyrockets

Billions of Dollars

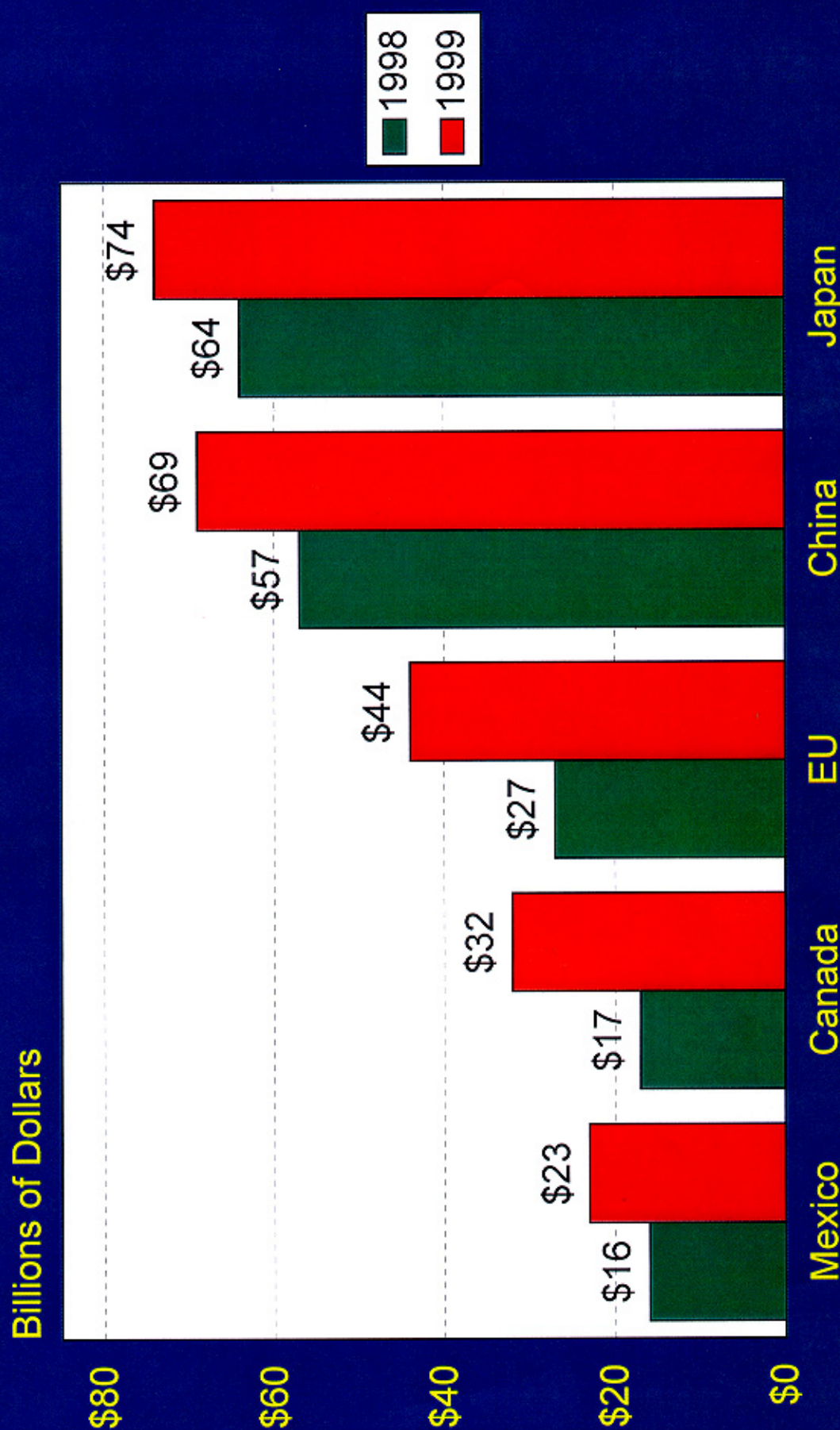


Source: U.S. Department of Commerce



# Bilateral Goods Deficits Escalate

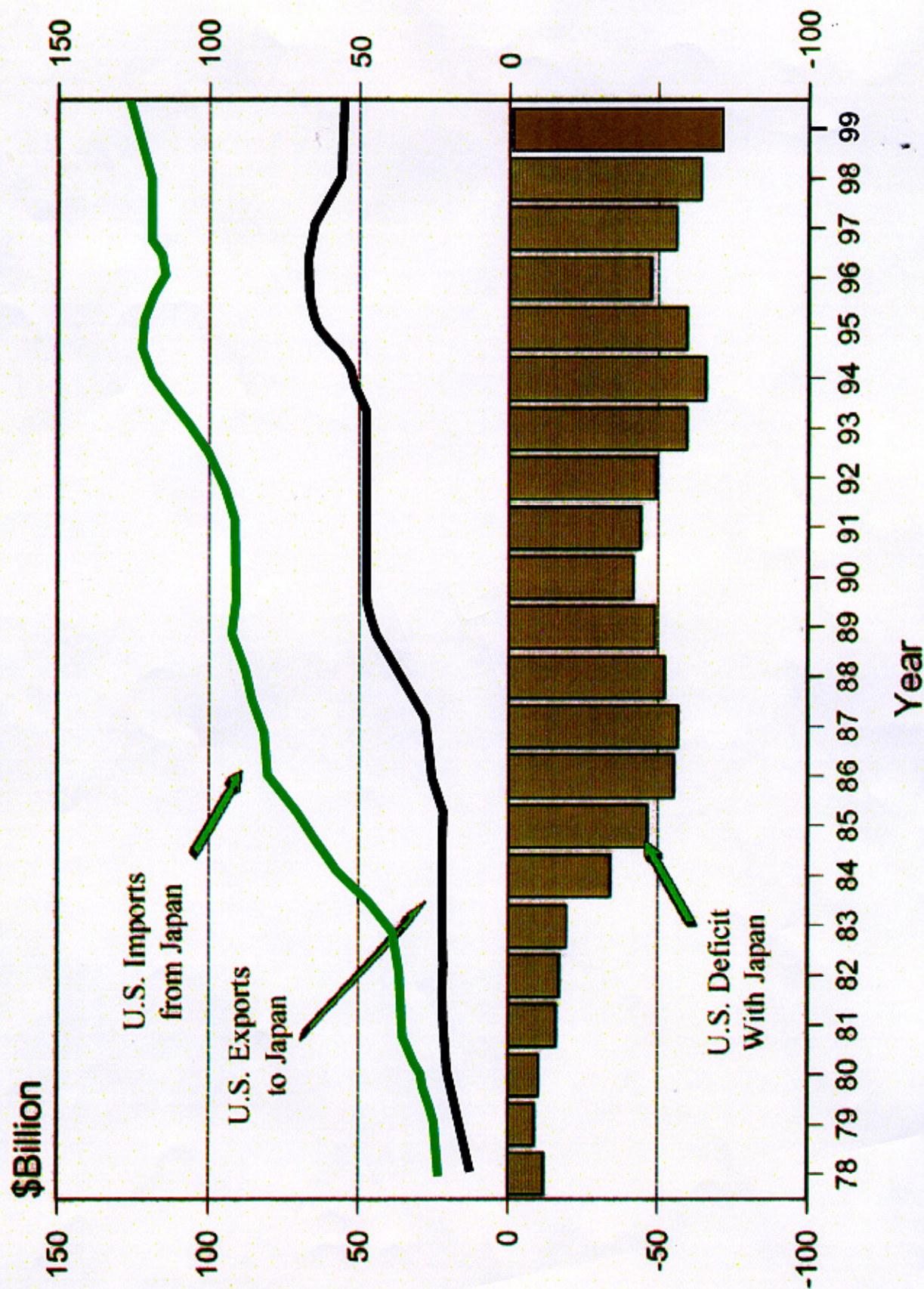
## 1998 and 1999



Source: U.S. Department of Commerce



# U.S. - Japan Merchandise Trade Deficit



Source: U.S. Department of Commerce

This is the goods deficit surge, and you'll see that, with respect to the goods deficit or the merchandise trade deficit for 1999, we had \$1.03 trillion in imports and \$683 billion in exports. Then you can see what's happened from 1991 on. That's a pretty interesting visual display of what's happened.

The second chart. This shows the goods deficit, again the merchandise trade deficit. The goods and services deficit is slightly less, but the chart shows about the same thing. The goods and services deficit would be in the \$270 billion range, but the merchandise trade deficit was \$347 billion for last year alone. You can see what has happened on a step basis year to year.

Next chart. The next chart shows our bilateral goods deficits with other countries. You can see how our merchandise trade deficit with Mexico increased in 1999 compared to 1998. It wasn't too long ago, prior to NAFTA incidentally, that we had a small trade surplus with Mexico. But that has long since evaporated.

The deficit with Mexico is increasing rather substantially, the deficit with Canada is increasing substantially. You can see what has

happened with the European Union, China and Japan.

These are pretty ominous bilateral deficits.

I'd like to show you a chart that relates, specifically to Japan, a country that has had a developed economy and is a shrewd, tough international economic competitor.

For 15 years, we have had \$50 billion deficits with Japan, year after year. This isn't something that comes and goes -- a decade and a half consistently in the neighborhood of \$50 billion or more in consecutive deficits.

Now, it seems to me if you look at all of this, it is clear that things are out of balance. Recurring and growing deficits are unsustainable, as Senator Sarbanes indicated. They are ultimately dangerous if left unchecked. Yet, there is almost no discussion about them at all. My hope is that this Commission will provide the spark that lights the fuse that ignites that discussion.

We live in a global economy. My home state of North Dakota is an agricultural state. We must find a foreign home for much of what we produce there.

So I'm not someone who would come to this policy discussion or policy debate suggesting we create



walls or shut down our borders or do anything of the sort. I believe we must find a foreign home for much of what we produce in agriculture.

I want to give you a specific example of what is angering the American people about this trade policy that doesn't seem yet to touch policymakers.

I was at the WTO meetings in Seattle and saw the tens of thousands of people in the streets. They weren't there just because of idle curiosity about trade. They were there because of a lot of very serious concerns about the fact that we have marched or galloped towards globalization without having a set of rules to guide us in that march that has kept pace. And they're very concerned about that.

Let me describe it just in a microcosm with respect to the U.S., Canada and agriculture because it's important, I think, for us to understand where all of this comes from.

We completed a trade agreement with Canada. You are all aware of durum wheat. Durum wheat is ground into semolina flour, and that semolina flour is used to produce spaghetti or pasta.

So when you eat your elbow macaroni or spaghetti or your lasagna, it very likely comes from a

wheat field in North Dakota because we grow about 80 percent of all of the durum wheat produced in the United States.

Prior to the trade agreement, almost no durum wheat was shipped from Canada to the U.S.

Today millions and millions and millions of bushels of durum are thrown into our economy from Canada, depressing our prices and injuring our farmers.

Why? Because the Canadians have something called the Canadian Wheat Board, which is a sanctioned monopoly in Canada that would be illegal in this country. They target our marketplace with Canadian durum, with secret prices by a state trading enterprise, and throw that durum into our economy. Prior to the legislation that implemented the agreement, U.S. Trade Ambassador Yuetter assured us in writing of "Good faith between the countries and their negotiations represented, that there would not be a significant change in the quantity of grain coming across the border." Despite that written assurance, we have this massive quantity of durum coming across the border from Canada.

So one day, I went to the border in a 12-year-old orange truck with a man named Earl Jensen. We



had with us 200 bushels of durum produced in North Dakota. We were going to haul it into Canada.

But do you know what happened? All the way to the border we passed semi truckload after semi truckload after semi truckload of Canadian durum being shipped into this country on a windy day, the grain spilling out from under the tarps from those semis, battering our windows all the way to the border. When we got to the border with Earl's 12-year-old orange truck and stopped at the border station going into Canada, officials there said, "You can't take U.S. durum into Canada."

"Why?," we asked.

"You can't, not unless you have an end-use certificate."

"Well, how do you get one of those?"

"Well, you're not going to." And so, Earl turned his truck back and didn't get his durum wheat into Canada.

I worry there is going to be violence on that border at some point. We've had demonstrations. We've had blockades. Why? Because our farmers think the conditions of trade are fundamentally unfair. It also creates a circumstance where we have a massive

inflow of goods that increases the bilateral trade deficit we now have with Canada.

I tell you that one story just to illustrate to you that there's a lot of agitation, and much of it is legitimate.

You know, if you want to look at this issue through the lens of regression analysis, fine. You can deal with theory for all of these issues.

But that's not the way the American people look at this issue. They evaluate it this way: is this a fair set of circumstances that I'm confronted with? Let me go through just a couple of those issues.

I mentioned that globalization has galloped forward. And the rules by which we conduct this trade have not nearly kept pace. For almost a century in this country, we fought, we debated and we wrestled with the questions of: what is a fair wage, what about workers' right to organize, what about producing something and dumping chemicals into water and air?

We resolved most of those. Some people died in our streets in demonstrations for some of those issues. It was awful and agonizing. But over a century, we resolved most of those issues.



Now some feel that globalization means you can just pole vault over all of those issues and you can produce it elsewhere where you don't have to worry about a safe workplace, about hiring children or about pollution, and you can ship that product into our marketplace.

People are very concerned about that and rightfully so because this country confronted those things within its own borders in a very difficult way for almost a century. The rules of the global economy must keep pace with globalization.

So let me make the most important point that I came to make. And that is that you can dissect all of these circumstances with Japan and China and Canada and Mexico. And you can look at all of these bilateral deficits and the growth of the deficit. And you must conclude, it seems to me, that something here just isn't working.

If you're having dinner in Japan next week, perhaps one of you might travel to Japan, and you order a t-bone steak for dinner. If that T-bone steak was shipped from the United States, it will have a 38 and one-half percent, tariff on it.

Now, after the kind of years we have had in bilateral relationships with Japan, is there any justification for having to pay a 38 and a half percent tariff to ship t-bone into Tokyo? Any justification at all?

Well, what about the just-completed bilateral trade agreement with China? The trade agreement with China which made so much progress, they say, and I'm all for progress.

At the end of that trade agreement, when it is finally completed by 2004 and it is fully in force, the tariffs with respect to agricultural goods will be reduced to 17 and a half percent, nearly triple our tariffs. And they say that's really terrific progress because the 17 and a half percent, frankly, is lower than the EU, Japan, Korea, Brazil, and India.

Well, so what? I mean, it seems to me that when we make trade agreements, we ought to be able to make them in a way that relates to some level of fairness for American producers when they are required to compete.

There are economists who will explain this until, as I say in my home state, the cows come home. I studied a little economics. I even taught economics



for a couple of years and didn't do particularly well, as you might be able to tell from my testimony.

But those who worship at the economic monastery of perpetual excuses will tell us that there is a reason for all of this and the reasons change. The reason a couple of years ago for this trade deficit was because we had the fiscal policy deficit. That was clearly the reason.

I read that reasoning in the "Washington Post" 100 times. Well, of course, now the fiscal policy deficit is largely evaporated. And, yet, the trade deficit continues to increase.

Perpetual excuses, it seems to me, won't do the job. What, in my judgment, should happen is we ought to hear the debate of trade through the sound of democracy. The sound of democracy means debating policy issues. The sound on trade has, regrettably, been one of silence.

My hope is that this Commission can take a look at all of these issues -- and they are difficult -- and try to create some recommendations that will result in the improvement of our trade balance and our trade circumstances.

Again, I want to thank you for the opportunity to provide some testimony today. And I'm proud to be here with my two colleagues Senator Byrd and Senator Sarbanes.

CHAIRMAN WEIDENBAUM: Thank you, Senator Dorgan.

In view of the hour, I'm asking members of the Commission to keep questions and, hopefully, answers terse.

Commissioner Rumsfeld?

COMMISSIONER RUMSFELD: Senator Dorgan, I appreciate your comments. I'm curious about the orange truck.

SENATOR DORGAN: Yes.

COMMISSIONER RUMSFELD: Are you suggesting that the United States signed a treaty with Canada or an agreement with Canada with respect to wheat that was unwise and unequal or that we're just not enforcing a basically wise, fair and equal agreement?

SENATOR DORGAN: No. I would add the word "incompetent" to "unwise and unequal." It was an incompetent agreement, one with a secret codicil, incidentally, that Congress didn't know about until we had a trade complaint filed.

The secret portion of it was that U.S. negotiators conceded that the Canadians, when evaluating whether the price at which they sold into this marketplace was below the acquisition cost would be based on the Canadian Wheat Board's initial payment to producers. The Canadian Wheat Board usually provides producers with interim and final payments based on actual marketing results.

So when our farmers complained, they discovered a secret deal had been made in the context of all of this so that our farmers couldn't win because the acquisition cost as defined in our country left out part of what the Canadian government had paid the Canadian wheat producers.

So it was clearly an incompetent agreement that traded away and sold out interests of American farmers for, I'm sure, other interests that were obtained somewhere but I don't know where.

CHAIRMAN WEIDENBAUM: Thank you, Senator.

A quick question from Commissioner Becker.

COMMISSIONER BECKER: It may not be quick. I'll try to be detailed on it. I feel very, very honored that you three Senators, Dorgan, Sarbanes and Byrd are here today. I don't think there is a thing

that I would disagree with you about. I think these are good comments to get into the record.

But I have a question or two on this. In dealing with the last one, the Administration is constantly seeking fast-track authority in order to expand trade agreements throughout South America and the Caribbean Basin, Central America, and what have you. I'd like your feeling on that.

When it agrees to give the President fast-track authority, do you feel that the Congress is abdicating its oversight, its involvement in the trade agreements, to prevent the very thing that you were talking about on the transfer of wheat between the United States and Canada? That's one question.

The other one deals right with this thing. A lot of discussion was made on China and the rapidly escalating deficit that we are running with China. This is in the face of annual approval for most-favored-nation status of China.

How do you feel about permanent most-favored-nation? Would this not eliminate what bit of leverage that we have to exercise any oversight on China if we would go on a permanent most-favored-nation? Please answer both questions.



SENATOR SARBANES: On the fast track, I think it represents a very significant abdication by Congress of its authorities. In order to do that, I think a very powerful argument has to be made.

I have supported fast track in the GATT context because I appreciate the argument that is made that if you are in a trade negotiation with 100 nations, it is very difficult, obviously, to revisit that negotiation if the Congress makes a different judgment than the Executive Branch.

I voted against fast track in a bilateral or more limited context because it seems to me that the Congress ought to exercise its judgments. And if it revises the agreement, then we have to revisit it with a country or limited number of countries with whom we have entered into a trade negotiation.

After all, there is no reason to believe that the trade-offs made in a trade agreement by the Executive will more necessarily carry forward the public interests than the trade-offs that would be made by the Congress.

I mean, you can argue that, but there is no sort of a priority reason why the Executive -- and, in fact, the Executive's trade-offs are, by and large,

made secretly or made in closed circumstances. The Congress' trade-offs are at least much more out in the open. And this is the institution that the American people have access to.

I think these trade agreements ought to be made, submitted to the Congress, and then we ought to go ahead and have our free-for-all about it and reach our judgment about it. We may win or lose on particular issues.

We negotiated arms agreements with the Soviet Union at times when the relationship was extremely critical. They weren't negotiated on some sort of fast track basis in the sense that the Administration then submitted it to the Congress and said: You either vote it up or vote it down, but you can't touch it. And I don't know of any agreements that were more important and went more directly to very important national interests.

So I think these agreements ought to come to us and we ought to be able to wrestle with them. The one exception, as I have indicated and I am prepared to consider, is a very broad-based international GATT sort of negotiation, where I can appreciate the difficulty of going back, then, and

revisiting it. You know, we try to do that under certain ground rules that give us protection.

On the WTO, The International Trade Commission did a study on the economic effects on the U.S. of China's accession to the WTO. They estimated that there would be an increase in the U.S. trade deficit with China, a very significant one, as a result of China's accession to the WTO.

I mean, the argument that is being advanced is as you bring them in, you're going to reduce the trade deficit. Their study concluded just to the contrary.

Secondly, I am very concerned that China would use its membership, then, to oppose what I think is a growing evolution internationally to address the labor rights and environmental questions as part of the trade agreements. China is against that. In the WTO, I think they will seek to block it taking place there.

So I have some very deep concerns about this situation. Actually, the WTO could be used as a shield. It's a tricky question. You say: Well, the WTO is going to force them not to do some of these things. But, on the other hand, it becomes a shield

for them against direct U.S. response to economic actions they may take.

I mean, we could not take actions to curb surge of imports if we're willing to do that. The WTO may preclude us from doing that.

CHAIRMAN WEIDENBAUM: Thank you very much, Senator Sarbanes.

SENATOR DORGAN: Mr. Chairman, let me make just one comment with respect to Mr. Rumsfeld. Enforcement is very important. I shortchanged you on the answer. Part of the issue with Canada is enforcement. We should be enforcing anti-dumping laws and self-initiating actions.

So I hope your Commission will look at enforcement in all areas. We have so few people enforcing trade laws. I'll be glad to visit with you about that later because I know you're short of time.

CHAIRMAN WEIDENBAUM: Thank you both for your cooperation.

Will the next panel come forward: Senator Gramm, Senator Hagel, and Congressman Moran? The Chair is pleased to recognize the distinguished Senior Senator of Texas, Senator Gramm.